



## MEMORANDUM

**To:** Mayor and Council

**From:** Greg Meszaros, Director, Austin Water

**Date:** February 27, 2017

**Subject:** Austin Water Budget Amendment (Item 3 on 3/2/2017 Agenda)

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At the Thursday, March 2, 2017 City Council Meeting, Council members are scheduled to consider an amendment to Austin Water's Approved 2017 Operating Budget and consider an amendment to the City's Combined Utility Revenue Bond Redemption Fund (Item 3, 3/2 Agenda). Additionally, Council will consider a debt defeasance item authorizing the Treasury Office to proceed with the transaction. The purpose of this memorandum is to provide Council with additional background information on the need for this budget amendment and defeasance transaction.

The main purpose of these two budget amendments is to provide appropriation authority to allow for Austin Water to execute a \$22.0 million revenue bond debt defeasance. A debt defeasance uses a source of cash funding to pay off a portion of our outstanding revenue bond debt early, creating debt service savings in future years. These debt defeasances have been done previously in 2016 and were planned again for 2017 and into the future.

These planned defeasances are a critical component of Austin Water's debt management strategies to reduce costs and rate pressures. The funding source used for these previous and planned defeasances have been collected capital recovery fees, which are restricted for the payment of debt service or defeasances. Revenue bond debt service savings from this defeasance transaction are expected to be approximately \$22.2 million over a four year total. For FY 2018, the expected savings is approximately \$12.0 million, which will significantly reduce rate pressures related to debt service increases.

There are three parts to the proposed budget amendment to be considered by Council. First, an amendment to Austin Water's Operating Budget to increase transfers in from our capital improvement program to the operating fund by \$1.8 million. Second, an amendment to Austin Water's Operating Budget to increase the transfers out for debt defeasances by \$7.0 million. Third, an amendment to increase the transfer in and transfer out of the City's Combined Utility Revenue Bond Redemption Fund by \$22.0 million. An explanation of the three parts of this action is detailed below.

As part of the FY 2017 Approved Budget, Austin Water planned for a transfer in to the operating fund of \$20.2 million in collected capital recovery fees for a planned defeasance. Collections for capital recovery fees have exceeded budgeted levels during FY 2016 and thus far in 2017. The first amendment to Austin Water's operating budget increases the transfer in to the operating fund by \$1.8 million, for a total of \$22.0 million in capital recovery fees available for the debt defeasance.

As part of the FY 2017 Approved Budget, Austin Water planned for a transfer out of the operating fund of \$15.0 million in capital recovery fees for a debt defeasance. Due to the higher than anticipated capital recovery fees and a \$22.0 million debt defeasance need, the second part of this amendment action increases the transfers out for defeasance by \$7.0 million, for a total of \$22.0 million available for the planned defeasance using capital recovery fees.

As part of the FY 2017 Approved Budget, the City's Combined Utility Revenue Bond Redemption Fund did not anticipate Austin Water's revenue bond defeasance transaction. This fund is the mechanism used by the Treasury Office to complete the defeasance transaction. The third part of this amendment action increases the transfer in to the redemption fund by \$22.0 million, and additionally increases the transfer out by the same amount. This provides the appropriation authority to complete the transaction.

The agenda for March 2, 2017 also includes a related Financial Services item (Item 10) for Council to consider the actual defeasance transaction. This action would authorize the Treasury Office to complete the defeasance transaction for a portion of Austin Water's current debt.

With the approval of these budget amendments and the defeasance transaction, the \$22.0 million debt defeasance will proceed in March 2017.

Please contact me if you have any additional questions or need clarification on this item.

cc: Elaine Hart, Interim City Manager  
Robert Goode P.E., Assistant City Manager  
David Anders, Assistant Director, Austin Water  
Greg Canally, Interim Chief Financial Officer, Finance Services Dept.  
Art Alfaro, City Treasurer, Finance Services Dept.